



MIDWEST BANK
and Trust Company
A Subsidiary of Midwest Banc Holdings, Inc.

925 Curtiss Street
Downers Grove, IL 60515
630-493-2480 fax 630-493-9137

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Sent via Fax to: 202-452-3819

Ms. Jennifer J. Johnson
Secretary
Board of Governors of the
Federal Reserve System
20th Street and Constitution Ave, NW.
Washington, DC 20551

Ref: Docket No. OP-XX

1246

Dear Ms. Johnson

The proposed Interagency Guidelines on Nontraditional Mortgage Products is a valiant attempt at guiding the regulated home lending industry but will create an uneven field of competition in comparison to the numerous mortgage companies that operate, for most all intents and purposes, in an unregulated industry. The general public is fully inundated with an abundance of disclosures that typically become lost in meaning when explanations are attempted and unread when mailed to customers.

Therefore, the recommendation is to level the home lending field by a federal total prohibition of certain types of home financing, or allow each lending institution to find its own comfort in granting these nontraditional home-financing products. Obviously several regulated financial institutions have granted these nontraditional products successfully for many years and through unstable economic periods. Therefore those who have mastered the origination and servicing of these products have found the appropriate monitoring requirements to properly administer these loans.

Within this response there is not an attempt to comment on all of the inquiries posed in the Interagency Guidance. To do so, with proper and applicable justification, will produce a response substantially in excess of the proposal. However, it should be noted there are some flaws in the proposal such as "no income and asset verification requirements" ("NINA" loans) are not the same as "reduced documentation" loans. NINA loans are considered within the industry as "no documentation" loans whereas "reduced documentation" loans contain some sort of limited verifications. As there is no standard definition of "reduced documentation" within the industry, the standards vary from lender to lender.

Interest only and negative amortizing loans have been in existence for decades; and lenders that have offered these loans have moved into and out-of that arena as the economic conditions change. Removing these optional lending alternatives may prohibit potential homeowners the correct financing options for gaining initial home ownership.

**Midwest Bank***Midwest Bank and Trust Company*

From an alternative view, there seems to be an underlying concern within the home lending industry regarding payment shock any time there is an increase in borrowers' monthly home loan payments. By comparison, this same thought process does not appear to concern those affiliated with associated housing expenses (i.e. hazard insurance, assessments for homeowners association dues, real estate taxes, heating expenses, other utilities, etc.). Homes have been known to be sold because of these escalating expenses as there have not been escape alternatives such as refinancing to avoid these associated expenses.

However, there is a different quandary regarding NINA or "stated income" loans. Typically such loans are obtained by borrowers who cannot prove their incomes and therefore are presumably, to some degree, income tax evaders. To counter this activity the requirement of a simple form from each and every lender (again to maintain a level field of operation) to each such applicant that their loan request will be processed in addition to the presentation to the Internal Revenue Service of their represented incomes (for stated income borrowers), and the loan request with corresponding housing expenses for NINA borrowers. With such abbreviated, but brief and explicit disclosures, it is speculated that such loans will greatly diminish and the field for payment of income taxes will be enhanced.

Respectfully submitted on behalf of
Midwest Bank and Trust Company,

A handwritten signature in cursive script, appearing to read "J. L. Freeland".

James L. Freeland
Vice President